

DIAGONAL COMMUNITY SCHOOL DISTRICT  
INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2008

## Contents

	<u>Page</u>
Officials	1
Independent Auditor's Report	2-3
Management's Discussion and Analysis (MD&A)	4-12
Basic Financial Statements:	<u>Exhibit</u>
Government-Wide Financial Statements:	
Statement of Net Assets	A 13
Statement of Activities	B 14
Governmental Fund Financial Statements:	
Balance Sheet	C 15
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	D 16
Statement of Revenues, Expenditures and Changes in Fund Balances	E 17
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities	F 18
Proprietary Fund Financial Statements:	
Statement of Net Assets	G 19
Statement of Revenues, Expenses and Changes in Net Assets	H 20
Statement of Cash Flows	I 21
Notes to Basic Financial Statements	22-30
Required Supplementary Information:	
Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances - Budget and Actual - All Governmental Funds and Proprietary Fund	31
Notes to Required Supplementary Information - Budgetary Reporting	32
Other Supplementary Information:	<u>Schedule</u>
Nonmajor Governmental Funds:	
Combining Balance Sheet	1 33
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	2 34
Schedule of Changes in Special Revenue Fund, Student Activity Accounts	3 35
Schedule of Revenues by Source and Expenditures by Function - All Governmental Fund Types	4 36
Schedule of Expenditures of Federal Awards	5 37-38
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>	39-40
Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133	41-42
Schedule of Findings and Questioned Costs	43-47

Diagonal Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>Board of Education (Before September 2007 Election)</b>		
Melinda England	President	2007
Phil Mason	Vice President	2009
Becky Stamps	Board Member	2007
Monte Starlin	Board Member	2008
Pam Grace	Board Member	2008
<b>Board of Education (After September 2007 Election)</b>		
Phil Mason	President	2009
Monte Starlin	Vice President	2008
Pam Grace	Board Member	2008
Becky Stamps	Board Member	2010
Jim Strange	Board Member	2010
<b>School Officials</b>		
Karleen Stephens	Superintendent	2008
Billie Jo Greene	District Secretary/ Treasurer	2008
Marion James	Attorney	2008

**NOLTE, CORNMAN & JOHNSON P.C.**  
**Certified Public Accountants**  
(a professional corporation)  
117 West 3rd Street North, Newton, Iowa 50208-3050  
Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the  
Diagonal Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Diagonal Community School District, Diagonal, Iowa, as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Diagonal Community School District at June 30, 2008, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.


In accordance with Government Auditing Standards, we have also issued our report dated February 18, 2009 on our consideration of Diagonal Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 31 through 32 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board.

Members American Institute & Iowa Society of Certified Public Accountants

We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Diagonal Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for four years ended June 30, 2007 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. The supplemental information included in Schedules 1 through 5, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

  
NOLTE, CORNMAN & JOHNSON, P.C.

February 18, 2009

---

---

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

---

Diagonal Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2008. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

### **2008 FINANCIAL HIGHLIGHTS**

- General Fund revenues decreased from \$2,230,766 in fiscal 2007 to \$2,211,115 in fiscal 2008, while General Fund expenditures decreased from \$2,258,347 in fiscal 2007 to \$2,192,497 in fiscal 2008. This resulted in an increase in the District's General Fund balance from \$329,195 in fiscal 2007 to \$347,813 in fiscal 2008, a 5.66% increase from the prior year.
- The decrease in General Fund revenues was attributable to a decrease in other local and federal sources revenue in fiscal 2008. The decrease in expenditures was due primarily to a decrease in regular instruction and instruction staff services.
- October 2007 Certified Enrollment count resulted in a decrease of 8 students, representing a 8.25% decrease compared to the prior year.

### **USING THIS ANNUAL REPORT**

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Diagonal Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Diagonal Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Diagonal Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor funds. In addition, the Schedule of Expenditures of Federal Awards provides detail of various programs benefiting the District.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

**Figure A-1**  
**Diagonal Community School District Annual Financial Report**

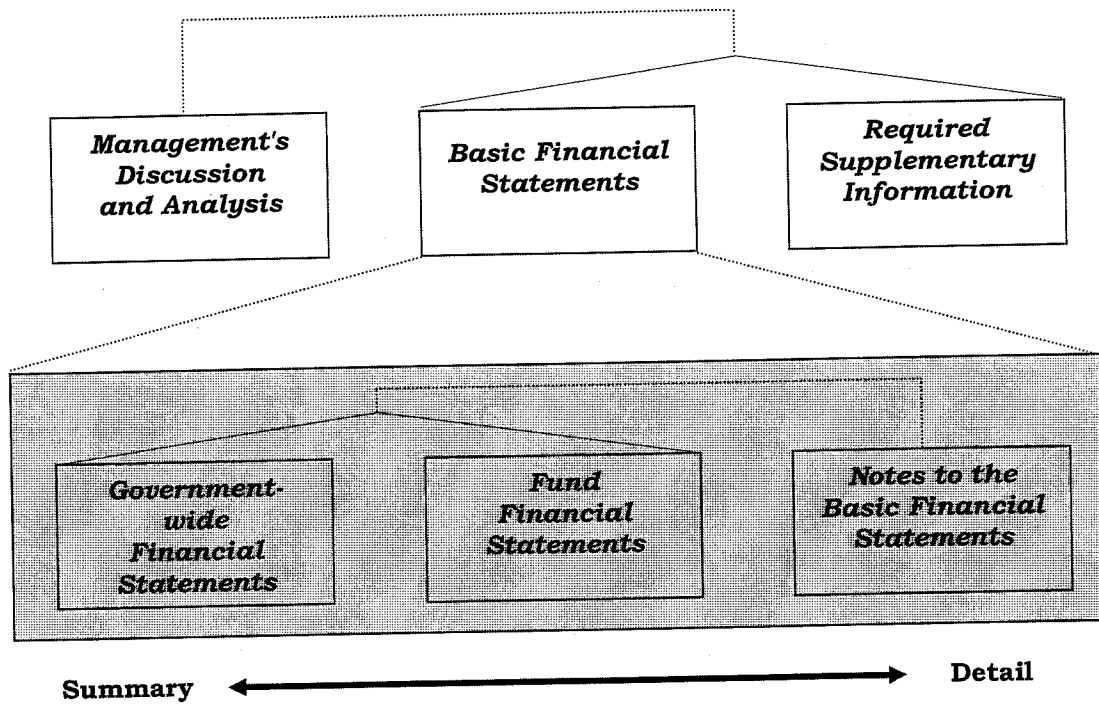


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

<b>Figure A-2 Major Features of the Government-wide and Fund Financial Statements</b>			
	Government-wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and adult education
Required financial statements	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures, and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of Net Assets</li> <li>• Statement of revenues, expenses and changes in net assets</li> <li>• Statement of cash flows</li> </ul>
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

## REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

### Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the



---

District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

### **Fund Financial Statements**

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has two kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds and Capital Projects.

The required financial statements for the governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.

The required financial statements for the proprietary funds include a statement of revenues, expenses and changes in net assets and a statement of cash flows.

Reconciliation between the government-wide financial statements and the fund financial statements follow the fund financial statements.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets at June 30, 2008 compared to June 30, 2007.

Figure A-3  
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2008	2007	2008	2007	2008	2007	2007-08
Current and other assets	\$ 1,334,285	1,459,501	26,147	28,541	1,360,432	1,488,042	-8.58%
Capital assets	495,866	435,585	10,933	7,881	506,799	443,466	14.28%
Total assets	1,830,151	1,895,086	37,080	36,422	1,867,231	1,931,508	-3.33%
Other liabilities	800,114	985,056	1,926	5,139	802,040	990,195	-19.00%
Total liabilities	800,114	985,056	1,926	5,139	802,040	990,195	-19.00%
Net assets:							
Invested in capital assets, net of related debt	495,866	435,585	10,933	7,881	506,799	443,466	14.28%
Restricted	176,530	130,037	0	0	176,530	130,037	35.75%
Unrestricted	357,641	344,408	24,221	23,402	381,862	367,810	3.82%
Total net assets	\$ 1,030,037	910,030	35,154	31,283	1,065,191	941,313	13.16%

The District's combined net assets increased by 13.16% or \$123,878 over the prior year. A portion of the District's net assets is the invested in capital assets, less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions, or enabling legislation on how they can be used. The District's restricted net assets increased \$46,493 or 35.75% over the prior year. The increase was primarily due to the increase in the fund balance of the Management Fund.

Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations without constraint established by debt covenants, enabling legislation, or the legal requirement - increased \$14,052 or 3.82%. The increase was primarily due to the increase in the fund balance of the General Fund.

Figure A-4 shows the changes in net assets for the year ended June 30, 2008 compared to June 30, 2007.

Figure A-4  
Changes of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2008	2007	2008	2007	2008	2007	2007-08
Revenues:							
Program revenues:							
Charges for services	\$ 481,680	502,133	28,362	30,037	510,042	532,170	-4.16%
Operating grants and contributions and restricted interest	862,644	884,283	42,874	49,097	905,518	933,380	-2.99%
Capital grants and contributions and restricted interest	25,000	0	0	0	25,000	0	100.00%
General revenues:							
Property tax	489,225	473,808	0	0	489,225	473,808	3.25%
Income surtax	60,472	42,096	0	0	60,472	42,096	43.65%
Local option sales and service tax	62,803	51,091	0	0	62,803	51,091	22.92%
Unrestricted state grants	423,423	418,926	0	0	423,423	418,926	1.07%
Other	50,969	57,592	45	0	51,014	57,592	-11.42%
Total revenues	2,456,216	2,429,929	71,281	79,134	2,527,497	2,509,063	0.73%
Program expenses:							
Governmental activities:							
Instructional	1,771,384	1,857,627	0	0	1,771,384	1,857,627	-4.64%
Support services	497,846	469,591	0	0	497,846	469,591	6.02%
Non-instructional programs	0	0	67,410	63,243	67,410	63,243	6.59%
Other expenses	66,979	51,618	0	0	66,979	51,618	29.76%
Total expenses	2,336,209	2,378,836	67,410	63,243	2,403,619	2,442,079	-1.57%
Changes in net assets	120,007	51,093	3,871	15,891	123,878	66,984	84.94%
Net assets beginning of year	910,030	858,937	31,283	15,392	941,313	874,329	7.66%
Net assets end of year	\$ 1,030,037	910,030	35,154	31,283	1,065,191	941,313	13.16%

In fiscal 2008, property tax, income surtax, local option sales and services tax and unrestricted state grants account for 42.18% of the revenue from governmental activities while charges for service and sales and operating grants and contributions account for 99.94% of the revenue from business-type activities.

The District's total revenues were \$2,527,497 of which \$2,456,216 was for governmental activities and \$71,281 was for business-type activities.

As shown in Figure A-4, the District as a whole experienced a 0.73% increase in revenues and a 1.57% decrease in expenses. The increases in revenue were related to increases in tuition and state sources of revenue. The decreases in expenses were related primarily to decreases in regular instruction, other instruction and transportation services expenditures.

### Governmental Activities

Revenues for governmental activities were \$2,456,216 and expenses were \$2,336,209.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services and other expenses.

Figure A-5  
Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2008	2007	Change 2007-08	2008	2007	Change 2007-08
Instruction	\$ 1,771,384	1,857,627	-4.64%	465,042	508,757	-8.59%
Support services	497,846	469,591	6.02%	497,846	469,591	6.02%
Other expenses	66,979	51,618	29.76%	3,997	14,072	-71.60%
Totals	<u>\$ 2,336,209</u>	<u>2,378,836</u>	<u>-1.79%</u>	<u>966,885</u>	<u>992,420</u>	<u>-2.57%</u>

- The cost financed by users of the District's programs was \$481,680.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$887,664.
- The net cost of governmental activities was financed with \$489,225 in local tax, \$60,472 in income surtax, \$62,803 in local option sales and service tax, \$423,423 in unrestricted state grants, \$28,167 in interest income and \$22,802 in other general revenues.

### Business-Type Activities

Revenues of the District's business-type activities were \$71,281 and expenses were \$67,410. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

## INDIVIDUAL FUND ANALYSIS

As previously noted, the Diagonal Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$492,881, above last year's ending fund balances of \$438,020. However, the primary reason for the increase was the increase in the fund balance of the Management Fund.

### Governmental Fund Highlights

- The District's General Fund balance increased from \$329,195 on June 30, 2007 to \$347,813 on June 30, 2008. The fluctuation in the District's General Fund financial position is the product of many factors. A decrease in the federal source revenue during the year resulted in a decrease in total revenues. The decrease in expenditures was due to the decreases in regular instruction, other instruction and transportation services expenditures. Revenues exceeded expenditures causing an increase in the District's financial position.
- The Capital Projects fund balance increased from \$10,455 in 2007 to \$20,929 in 2008. This resulted from an increase in local option sales and service tax revenues received during the year and a decrease in facilities acquisition expenditures.
- The Management fund balance increase from \$25,205 in 2007 to \$39,325 in 2008. This resulted from an increase in local revenue received during the year.

### Proprietary Fund Highlights

The School Nutrition Fund net assets increased from \$31,283 at June 30, 2007 to \$35,154 at June 30, 2008, representing an increase of 12.37%.

---

## BUDGETARY HIGHLIGHTS

The District's revenues were \$91,386 less than budgeted revenues, a variance of 3.50%. The most significant variance resulted from the District receiving less in state sources than originally anticipated.

Total expenditures were less than budgeted, primarily to the District's budget for the General Fund. It is not the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District's budget is developed utilizing realistic projections of revenues and expenditures. The district then manages or controls General Fund spending through its line-item budget. In situations where revenues exceed projections, and expenditures do not exceed spending authority, the Board may take action to amend the budget authorizing additional expenditures.

In spite of the District's budgetary practice, the certified budget was exceeded in the other expenditures function due to increased capital improvement expenditures without sufficient time to amend the certified budget.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

At June 30, 2008, the District had invested \$506,799, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net increase of 14.28% from last year. More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year was \$56,903.

The original cost of the District's capital assets was \$1,314,119. Governmental funds account for \$1,280,099 with the remainder of \$34,020 in the Proprietary, School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the buildings category. The District's buildings totaled \$356,663 at June 30, 2008, compared to \$155,634 reported at June 30, 2007. This increase resulted from the completion of building improvements for a drop tile ceiling removal and fire walls and doors installation project completed during the year.

Figure A-6  
Capital Assets, Net of Depreciation

	Governmental Activities		Business-type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2008	2007	2008	2007	2008	2007	2007-08
Land	\$ 7,230	7,230	0	0	7,230	7,230	0.00%
Construction in progress	0	105,782	0	0	0	105,782	-100.00%
Buildings	356,663	165,634	0	0	356,663	165,634	115.33%
Land improvements	38,462	40,870	0	0	38,462	40,870	-5.89%
Machinery and equipment	93,511	116,069	10,933	7,881	104,444	123,950	-15.74%
Total	\$ 495,866	435,585	10,933	7,881	506,799	443,466	14.28%

### Long-Term Debt

At June 30, 2008, there was no long-term debt noted for the District.

---

## **ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE**

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- Low allowable growth over several years and enrollment decreases may negatively impact the District's spending authority. Contractual increases and program changes cannot be made without thorough consideration of our unspent authorized budget. The district's cash balance will support short term funding shortfalls from the state.
- Continued budget concerns at state level will affect future projections. The District has been forced to shift funding to property taxes.
- The District continues to receive Local Option Sales and Services Tax for School Infrastructure (SILO) from Ringgold County. This 1 cent tax on sales and services will greatly benefit the District in maintaining their buildings, purchasing equipment and debt repayment. The funding began in January 2005 and will continue through December 2013.

## **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Billie Jo Greene, District Board Secretary/Treasurer, Diagonal Community School District, 403 W 2<sup>nd</sup>, P.O. Box 94, Diagonal, Iowa, 50845-0094.

BASIC FINANCIAL STATEMENTS

DIAGONAL COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
JUNE 30, 2008

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and pooled investments:			
ISCAP(Note 3)	\$ 172,394	0	172,394
Other	531,021	23,574	554,595
Receivables:			
Property tax:			
Delinquent	7,836	0	7,836
Succeeding year	525,206	0	525,206
Income surtax	41,290	0	41,290
Accounts	1,462	252	1,714
Accrued ISCAP interest(Note 3)	65	0	65
Due from other governments	55,011	78	55,089
Inventories	0	2,243	2,243
Capital assets, net of accumulated depreciation(Note 4)	495,866	10,933	506,799
<b>TOTAL ASSETS</b>	<b>1,830,151</b>	<b>37,080</b>	<b>1,867,231</b>
<b>LIABILITIES</b>			
Accounts payable	87,053	1,905	88,958
Salaries and benefits payable	13,872	0	13,872
ISCAP warrants payable(Note 3)	171,000	0	171,000
ISCAP interest payable(Note 3)	50	0	50
ISCAP premiums payable	2,933	0	2,933
Deferred revenue:			
Succeeding year property tax	525,206	0	525,206
Unearned revenue	0	21	21
<b>TOTAL LIABILITIES</b>	<b>800,114</b>	<b>1,926</b>	<b>802,040</b>
<b>NET ASSETS</b>			
Investment in capital assets	495,866	10,933	506,799
Restricted for:			
Talented and gifted	18,931	0	18,931
Market factor	1,024	0	1,024
Market factor incentives	986	0	986
At risk	10,521	0	10,521
Capital projects	20,929	0	20,929
Management levy	39,325	0	39,325
Physical plant and equipment levy	61,726	0	61,726
Other special revenue purposes	23,088	0	23,088
Unrestricted	357,641	24,221	381,862
<b>TOTAL NET ASSETS</b>	<b>\$ 1,030,037</b>	<b>35,154</b>	<b>1,065,191</b>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.



DIAGONAL COMMUNITY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2008

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		Total
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business-Type Activities	
Functions/Programs							
Governmental activities:							
Instruction:							
Regular instruction	\$ 850,669	429,565	406,471	0	(14,633)	0	(14,633)
Special instruction	227,815	0	5,865	0	(221,950)	0	(221,950)
Other instruction	692,900	52,115	412,326	0	(228,459)	0	(228,459)
	1,771,384	481,680	824,662	0	(465,042)	0	(465,042)
Support services:							
Student support services	4,201	0	0	0	(4,201)	0	(4,201)
Instructional staff services	15,255	0	0	0	(15,255)	0	(15,255)
Administration services	234,017	0	0	0	(234,017)	0	(234,017)
Operation and maintenance of plant services	170,872	0	0	0	(170,872)	0	(170,872)
Transportation services	73,501	0	0	0	(73,501)	0	(73,501)
	497,846	0	0	0	(497,846)	0	(497,846)
Other expenditures:							
Facilities acquisitions	4,256	0	0	25,000	20,744	0	20,744
AEA flowthrough	37,982	0	37,982	0	0	0	0
Depreciation(unallocated)*	24,741	0	0	0	(24,741)	0	(24,741)
	66,979	0	37,982	25,000	(3,997)	0	(3,997)
Total governmental activities	2,336,209	481,680	862,644	25,000	(966,885)	0	(966,885)
Business-Type activities:							
Non-instructional programs:							
Nutrition services	67,410	28,362	42,874	0	0	3,826	3,826
Total business-type activities	67,410	28,362	42,874	0	0	3,826	3,826
Total	\$ 2,403,619	510,042	905,518	25,000	(966,885)	3,826	(963,059)
General Revenues:							
Local tax for:							
General purposes					\$ 439,938	0	439,938
Capital outlay					49,287	0	49,287
Income surtax					60,472	0	60,472
Local option sales and services tax					62,803	0	62,803
Unrestricted state grants					423,423	0	423,423
Unrestricted investment earnings					28,167	45	28,212
Other general revenues					22,802	0	22,802
Total general revenues					1,086,892	45	1,086,937
Changes in net assets					120,007	3,871	123,878
Net assets beginning of year					910,030	31,283	941,313
Net assets end of year					\$ 1,030,037	35,154	1,065,191

\* This amount excludes the depreciation that is included in the direct expense of various programs.

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

DIAGONAL COMMUNITY SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2008

	General	Other Nonmajor Governmental Funds	Total
<b>ASSETS</b>			
Cash and pooled investments:			
ISCAP(Note 3)	\$ 172,394	0	172,394
Other	357,469	173,552	531,021
Receivables:			
Property tax			
Delinquent	6,330	1,506	7,836
Succeeding year	429,998	95,208	525,206
Income surtax	41,290	0	41,290
Accounts	1,322	140	1,462
Accrued ISCAP interest(Note 3)	65	0	65
Due from other governments	39,383	15,628	55,011
<b>TOTAL ASSETS</b>	<b>\$ 1,048,251</b>	<b>286,034</b>	<b>1,334,285</b>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Accounts payable	\$ 41,295	45,758	87,053
Salaries and benefits payable	13,872	0	13,872
ISCAP warrants payable(Note 3)	171,000	0	171,000
ISCAP interest payable(Note 3)	50	0	50
ISCAP premiums payable	2,933	0	2,933
Deferred revenue:			
Succeeding year property tax	429,998	95,208	525,206
Income surtax	41,290	0	41,290
Total liabilities	700,438	140,966	841,404
Fund balances:			
Reserved for:			
Talented and gifted	18,931	0	18,931
Market factor	1,024	0	1,024
Market factor incentives	986	0	986
At risk	10,521	0	10,521
Unreserved:			
Undesignated:			
General	316,351	0	316,351
Capital projects	0	20,929	20,929
Management levy	0	39,325	39,325
Physical plant and equipment levy	0	61,726	61,726
Other special revenue purposes	0	23,088	23,088
Total fund balances	347,813	145,068	492,881
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 1,048,251</b>	<b>286,034</b>	<b>1,334,285</b>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

DIAGONAL COMMUNITY SCHOOL DISTRICT  
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS  
JUNE 30, 2008

<b>Total fund balances of governmental funds (page 15)</b>	\$ 492,881
 <b><i>Amounts reported for governmental activities in the statement of net assets are different because:</i></b>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in in the governmental funds.	495,866
Accounts receivable income surtax, are not yet available to finance expenditures of the current period.	<u>41,290</u>
<b>Net assets of governmental activites (page 13)</b>	<u><u>\$ 1,030,037</u></u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

DIAGONAL COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2008

	General	Other Nonmajor Governmental Funds	Total
<b>REVENUES:</b>			
Local sources:			
Local tax	\$ 450,791	156,844	607,635
Tuition	292,589	0	292,589
Other	181,668	58,392	240,060
State sources	745,083	0	745,083
Federal sources	540,984	25,000	565,984
Total revenues	<u>2,211,115</u>	<u>240,236</u>	<u>2,451,351</u>
<b>EXPENDITURES:</b>			
Current:			
Instruction:			
Regular instruction	827,648	13,302	840,950
Special instruction	227,815	0	227,815
Other instruction	646,176	46,212	692,388
	<u>1,701,639</u>	<u>59,514</u>	<u>1,761,153</u>
Support services:			
Student support services	4,201	0	4,201
Instructional staff services	6,693	8,446	15,139
Administration services	234,017	0	234,017
Operation and maintenance of plant services	149,860	21,012	170,872
Transportation services	58,105	3,185	61,290
	<u>452,876</u>	<u>32,643</u>	<u>485,519</u>
Other expenditures:			
Facilities acquisitions	0	111,836	111,836
AEA flowthrough	37,982	0	37,982
	<u>37,982</u>	<u>111,836</u>	<u>149,818</u>
Total expenditures	<u>2,192,497</u>	<u>203,993</u>	<u>2,396,490</u>
Net change in fund balances	18,618	36,243	54,861
Fund balance beginning of year	329,195	108,825	438,020
Fund balance end of year	<u>\$ 347,813</u>	<u>145,068</u>	<u>492,881</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

DIAGONAL COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF ACTIVITIES  
 YEAR ENDED JUNE 30, 2008

Net change in fund balances - total governmental funds (page 17) \$ 54,861

*Amounts reported for governmental activities in the  
 statement of activities are different because:*

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Expenditures for capital assets	\$ 115,876	
Depreciation expense	<u>(55,595)</u>	60,281

Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds.

4,865

Changes in net assets of governmental activities (page 14)

\$ 120,007

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

DIAGONAL COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
PROPRIETARY FUND  
JUNE 30, 2008

	<u>School Nutrition</u>
ASSETS	
Cash and pooled investments	\$ 23,574
Receivables:	
Accounts	252
Due from other governments	78
Inventories	2,243
Capital assets, net of accumulated depreciation (Note 4)	10,933
TOTAL ASSETS	<u>37,080</u>
LIABILITIES	
Accounts payable	1,905
Unearned revenue	21
TOTAL LIABILITIES	<u>1,926</u>
NET ASSETS	
Invested in capital assets	10,933
Unrestricted	24,221
TOTAL NET ASSETS	<u>\$ 35,154</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

DIAGONAL COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2008

	<u>School Nutrition</u>
OPERATING REVENUE:	
Local sources:	
Charges for services	<u>\$        28,362</u>
OPERATING EXPENSES:	
Non-instructional programs:	
Food service operations:	
Salaries	20,160
Benefits	2,762
Supplies	43,180
Depreciation	1,308
TOTAL OPERATING EXPENSES	<u>67,410</u>
OPERATING LOSS	<u>(39,048)</u>
NON-OPERATING REVENUES:	
State sources	742
Federal sources	42,132
Interest income	45
TOTAL NON-OPERATING REVENUES	<u>42,919</u>
Change in net assets	3,871
Net assets beginning of year	<u>31,283</u>
Net assets end of year	<u><u>\$        35,154</u></u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

DIAGONAL COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2008

	<u>School Nutrition</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 27,971
Cash payments to employees for services	(22,922)
Cash payments to suppliers for goods or services	(39,390)
Net cash used in operating activities	<u>(34,341)</u>
Cash flows from non-capital financing activities:	
Repayment to General Fund	(3,183)
State grants received	742
Federal grants received	40,195
Net cash provided by non-capital financing activities	<u>37,754</u>
Cash flows from capital financing activities:	
Acquisition of assets	<u>(4,360)</u>
Cash flows from investing activities:	
Interest on investments	<u>45</u>
Net decrease in cash and cash equivalents	(902)
Cash and cash equivalents at beginning of year	<u>24,476</u>
Cash and cash equivalents at end of year	<u>\$ 23,574</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (39,048)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	3,503
Depreciation	1,308
Decrease in inventories	178
Increase in accounts receivable	(252)
Increase in accounts payable	109
Decrease in unearned revenues	(139)
Net cash used in operating activities	<u>\$ (34,341)</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	<u>\$ 23,574</u>

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2008, the District received Federal commodities valued at \$3,503.

SEE NOTES TO BASIC FINANCIAL STATEMENTS.



# DIAGONAL COMMUNITY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

### (1) Summary of Significant Accounting Policies

The Diagonal Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the City of Diagonal, Iowa, and the predominate agricultural territory in Ringgold County. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

#### A. Reporting Entity

For financial reporting purposes, Diagonal Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Diagonal Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Ringgold County Assessors' Conference Board.

#### B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

*Invested in capital assets* consists of capital assets, net of accumulated depreciation.

*Restricted net assets* result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net asset* consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The District reports the following proprietary fund:

The District's proprietary fund is the Enterprise, School Nutrition Fund. The School Nutrition Fund is used to account for the food service operations of the District.

#### C. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of

related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Balances

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2006 assessed property valuations; is for the tax accrual period July 1, 2007 through June 30, 2008 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2007.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, machinery and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 500
Buildings	500
Land improvements	500
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	500

Capital assets are depreciated using the straight line method of depreciation over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Land improvements	20 years
Machinery and equipment	5-20 years

Salaries and Benefits Payable - Payroll and related expenditures for annual contracts corresponding to the current school year, which is payable in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Unearned Revenue - Unearned revenues are monies collected for lunches that have not yet been served. The lunch account balances will either be reimbursed or served lunches. The

lunch account balances are reflected on the Statement of Net Assets in the Proprietary, School Nutrition Fund.

Long-term Liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Balances - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2008, expenditures in the other expenditures function exceeded the amount budgeted.

(2) **Cash and Pooled Investments**

The District's deposits at June 30, 2008 were entirely covered by federal depository insurance or State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District had investments in the Iowa Schools Joint Investment Trust as follows:

	Amortized Cost
Diversified Portfolio	\$ 175,462

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

(3) **Iowa School Cash Anticipation Program (ISCAP)**

The District participates in the Iowa Schools Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating

entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings, and amounts available for withdrawal for each outstanding series of warrants. These accounts are reflected as restricted assets on the balance sheet. Bankers Trust Co. NA is the trustee for the program. A summary of the District's participation in ISCAP as of June 30, 2008 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2008-09A	6/26/08	6/25/09	\$ 172,394	65	171,000	50

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts, and must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. ISCAP advance activity in the General Fund for the year ended June 30, 2008 is as follows:

Series	Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
2007-08A	\$ 0	100,000	100,000	0

The warrants bear an interest rate and the available proceeds of the warrants are invested at an interest rate as shown below:

Series	Interest Rates on Warrants	Interest Rates on Investments
2007-08A	4.500%	5.455%
2008-09A	3.500%	3.469%

#### (4) Capital Assets

Capital assets activity for the year ended June 30, 2008 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 7,230	0	0	7,230
Construction in progress	105,782	49,501	155,283	0
Total capital assets not being depreciated	113,012	49,501	155,283	7,230
Capital assets being depreciated:				
Buildings	597,545	213,362	0	810,907
Land improvements	48,152	0	0	48,152
Machinery and equipment	450,514	8,296	45,000	413,810
Total capital assets being depreciated	1,096,211	221,658	45,000	1,272,869
Less accumulated depreciation for:				
Buildings	431,911	22,333	0	454,244
Land improvements	7,282	2,408	0	9,690
Machinery and equipment	334,445	30,854	45,000	320,299
Total accumulated depreciation	773,638	55,595	45,000	784,233
Total capital assets being depreciated, net	322,573	166,063	0	488,636
Governmental activities capital assets, net	\$ 435,585	215,564	155,283	495,866
Business-type activities:				
Machinery and equipment	\$ 33,885	4,360	4,225	34,020
Less accumulated depreciation	26,004	1,308	4,225	23,087
Business-type activities capital assets, net	\$ 7,881	3,052	0	10,933

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 18,015
Other	512
Support services:	
Instructional staff services	116
Transportation	12,211
	30,854
Unallocated depreciation	24,741
Total governmental activities depreciation expense	\$ 55,595
Business-type activities:	
Food services	\$ 1,308



**(5) Pension and Retirement Benefits**

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.90% of their annual salary and the District is required to contribute 6.05% of annual covered payroll for the years ended June 30, 2008, 2007 and 2006. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2008, 2007 and 2006 were \$81,970, \$75,379 and \$73,411 respectively, equal to the required contributions for each year.

**(6) Risk Management**

Diagonal Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**(7) Area Education Agency**

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$37,982 for the year ended June 30, 2008 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

**(8) Budget Overexpenditure**

Per the Code of Iowa, expenditures may not legally exceed budgeted appropriations at the functional area level. During the year ended June 30, 2008, expenditures in the other expenditures function exceeded the amount budgeted.

REQUIRED SUPPLEMENTARY INFORMATION

DIAGONAL COMMUNITY SCHOOL DISTRICT  
BUDGETARY COMPARISON OF REVENUES, EXPENDITURES AND  
CHANGES IN BALANCES -  
BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS  
AND PROPRIETARY FUNDS  
REQUIRED SUPPLEMENTARY INFORMATION  
YEAR ENDED JUNE 30, 2008

	Governmental Fund Types Actual	Proprietary Fund Type Actual	Total Actual	Budgeted Amounts		Final to Actual Variance
				Original	Final	
Revenues:						
Local sources	\$ 1,140,284	28,407	1,168,691	1,196,370	1,196,370	(27,679)
Intermediate sources	0	0	0	25,000	25,000	(25,000)
State sources	745,083	742	745,825	787,648	787,648	(41,823)
Federal sources	565,984	42,132	608,116	605,000	605,000	3,116
Total revenues	2,451,351	71,281	2,522,632	2,614,018	2,614,018	(91,386)
Expenditures:						
Instruction	1,761,153	0	1,761,153	2,303,808	2,303,808	542,655
Support services	485,519	0	485,519	643,210	643,210	157,691
Non-instructional programs	0	67,410	67,410	93,592	93,592	26,182
Other expenditures	149,818	0	149,818	91,412	91,412	(58,406)
Total expenditures	2,396,490	67,410	2,463,900	3,132,022	3,132,022	668,122
Excess(deficiency) of revenues over(under) expenditures	54,861	3,871	58,732	(518,004)	(518,004)	576,736
Balance beginning of year	438,020	31,283	469,303	523,004	523,004	(53,701)
Balance end of year	\$ 492,881	35,154	528,035	5,000	5,000	523,035

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

DIAGONAL COMMUNITY SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING  
YEAR ENDED JUNE 30, 2008

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparison for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2008, expenditures in the other expenditures function exceeded the amount budgeted.

OTHER SUPPLEMENTARY INFORMATION

DIAGONAL COMMUNITY SCHOOL DISTRICT  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
JUNE 30, 2008

	Nonmajor Special Revenue Funds					Total
	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue Funds	Capital Projects	Other Nonmajor Governmental Funds
ASSETS						
Cash and pooled investments	\$ 38,608	23,417	61,776	123,801	49,751	173,552
Receivables:						
Property tax:						
Delinquent	717	0	789	1,506	0	1,506
Succeeding year property tax	45,000	0	50,208	95,208	0	95,208
Accounts	0	140	0	140	0	140
Due from other governments	0	0	0	0	15,628	15,628
TOTAL ASSETS	\$ 84,325	23,557	112,773	220,655	65,379	286,034
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	\$ 0	469	839	1,308	44,450	45,758
Deferred revenue:						
Succeeding year property tax	45,000	0	50,208	95,208	0	95,208
	45,000	469	51,047	96,516	44,450	140,966
Fund balances:						
Unreserved fund balances	39,325	23,088	61,726	124,139	20,929	145,068
	39,325	23,088	61,726	124,139	20,929	145,068
TOTAL LIABILITIES AND FUND BALANCES	\$ 84,325	23,557	112,773	220,655	65,379	286,034

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

DIAGONAL COMMUNITY SCHOOL DISTRICT  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES  
 NONMAJOR GOVERNMENTAL FUNDS  
 YEAR ENDED JUNE 30, 2008

	Nonmajor Special Revenue Funds					Total
	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue Funds	Capital Projects	Other Nonmajor Governmental Funds
REVENUES:						
Local sources:						
Local tax	\$ 44,754	0	49,287	94,041	62,803	156,844
Other	4,428	52,158	292	56,878	1,514	58,392
Federal sources	0	0	25,000	25,000	0	25,000
TOTAL REVENUES	49,182	52,158	74,579	175,919	64,317	240,236
EXPENDITURES:						
Current:						
Instruction:						
Regular instruction	13,302	0	0	13,302	0	13,302
Other instruction	0	46,212	0	46,212	0	46,212
Support services:						
Instructional staff services	0	0	0	0	8,446	8,446
Operation and maintenance of plant services	18,575	0	2,437	21,012	0	21,012
Transportation services	3,185	0	0	3,185	0	3,185
Other expenditures:						
Facilities acquisition	0	0	66,439	66,439	45,397	111,836
TOTAL EXPENDITURES	35,062	46,212	68,876	150,150	53,843	203,993
Net change in fund balances	14,120	5,946	5,703	25,769	10,474	36,243
Fund balance beginning of year	25,205	17,142	56,023	98,370	10,455	108,825
Fund balance end of year	\$ 39,325	23,088	61,726	124,139	20,929	145,068

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

DIAGONAL COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS  
 YEAR ENDED JUNE 30, 2008

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Athletics	\$ 1,366	15,055	15,711	710
Concessions	7,524	9,234	6,181	10,577
Class of 2008	2,249	6,400	8,649	0
Class of 2009	(40)	11,596	8,692	2,864
Class of 2010	0	170	0	170
Annual	1,234	3,666	2,183	2,717
Drama	1,244	1,800	151	2,893
Music	(89)	89	0	0
Student Council	110	0	0	110
Maroon Reader	2,345	4,148	4,645	1,848
Memorials	902	0	0	902
Class Memorials	297	0	0	297
	<u>\$ 17,142</u>	<u>52,158</u>	<u>46,212</u>	<u>23,088</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.



DIAGONAL COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION  
 ALL GOVERNMENTAL FUND TYPES  
 FOR THE LAST FIVE YEARS

	Modified Accrual Basis				
	Years Ended June 30,				
	2008	2007	2006	2005	2004
Revenues:					
Local sources:					
Local tax	\$ 607,635	566,458	559,857	546,400	544,656
Tuition	292,589	267,538	92,408	67,507	51,087
Other	240,060	292,187	391,741	91,851	126,058
State sources	745,083	705,559	594,677	660,783	548,636
Federal sources	565,984	597,650	513,842	675,119	681,393
Total	<u>\$ 2,451,351</u>	<u>2,429,392</u>	<u>2,152,525</u>	<u>2,041,660</u>	<u>1,951,830</u>
Expenditures:					
Current:					
Instruction:					
Regular instruction	\$ 840,950	938,263	789,828	699,770	1,108,158
Special instruction	227,815	184,185	161,538	280,114	256,790
Other instruction	692,388	737,560	603,817	589,192	87,919
Support services:					
Student services	4,201	0	0	7,702	0
Instructional staff services	15,139	20,779	21,308	2,285	8,197
Administration services	234,017	229,767	200,702	210,383	167,842
Operation and maintenance of plant services	170,872	164,230	143,747	141,915	193,348
Transportation services	61,290	108,348	56,573	37,790	42,674
Non-instructional programs	0	0	0	0	36,781
Other expenditures:					
Facilities acquisitions	111,836	130,986	38,958	16,495	0
Long-term debt:					
Principal	0	0	0	893	15,706
Interest and fiscal charges	0	0	0	30	1,550
AEA flow-through	37,982	37,546	35,408	35,430	35,560
Total	<u>\$ 2,396,490</u>	<u>2,551,664</u>	<u>2,051,879</u>	<u>2,021,999</u>	<u>1,954,525</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

DIAGONAL COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2008

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
DIRECT:			
DEPARTMENT OF EDUCATION:			
FUND FOR THE IMPROVEMENT OF EDUCATION (CAROL M. WHITE PHYSICAL EDUCATION PROGRAM)	84.215	FY 08	\$ 412,326
RURAL EDUCATION ACHIEVEMENT PROGRAM (REAP)	84.358	FY 08	13,414
INDIRECT:			
DEPARTMENT OF AGRICULTURE:			
IOWA DEPARTMENT OF EDUCATION:			
SCHOOL NUTRITION CLUSTER PROGRAMS:			
SCHOOL BREAKFAST PROGRAM	10.553	FY 08	5,319
NATIONAL SCHOOL LUNCH PROGRAM	10.555	FY 08	32,935 *
SUMMER FOOD SERVICE PROGRAM FOR CHILDREN	10.559	FY 08	3,800
			42,054
DEPARTMENT OF EDUCATION:			
IOWA DEPARTMENT OF EDUCATION:			
TITLE I GRANTS TO LOCAL EDUCA- TIONAL AGENCIES	84.010	1782-G	35,967
SAFE AND DRUG-FREE SCHOOLS AND COMMUNITIES - STATE GRANTS	84.186	FY 08	804
INNOVATIVE EDUCATION PROGRAM STRATEGIES (TITLE V PROGRAM)	84.298	FY 08	204
TITLE IIA - FEDERAL TEACHER QUALITY PROGRAM	84.367	FY 08	6,593
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES (TITLE VI A)	84.369	FY 08	686
CLEARFIELD COMMUNITY SCHOOL DISTRICT:			
READING FIRST STATE GRANTS	84.357	FY 08	16,010
FUND FOR THE IMPROVEMENT OF EDUCATION (IOWA DEMONSTRATION CONSTRUCTION GRANT)	84.215	FY 08	25,000
AREA EDUCATION AGENCY:			
SPECIAL EDUCATION - GRANTS TO STATES (PART B)	84.027	FY 08	5,865

DIAGONAL COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2008

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
INDIRECT (CONTINUED):			
AREA EDUCATION AGENCY (CONTINUED):			
ENHANCING EDUCATION THROUGH TECHNOLOGY (E2T2)	84.318	FY 08	<u>1,115</u>
DEPARTMENT OF HUMAN SERVICES:			
IOWA DEPARTMENT OF EDUCATION:			
CHILD CARE DEVELOPMENT BLOCK GRANTS			
WRAP AROUND GRANT	93.575	FY 08	<u>48,000</u>
TOTAL			<u>\$ 608,038</u>

\* Includes \$3,503 of non-cash awards.

**Basis of Presentation** - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the Diagonal Community School District and is presented in conformity with the accrual or modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

# **NOLTE, CORNMAN & JOHNSON P.C.**

## **Certified Public Accountants**

(a professional corporation)

117 West 3rd Street North, Newton, Iowa 50208-3050

Telephone (641) 792-1910

### Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

To the Board of Education of the  
Diagonal Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Diagonal Community School District as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated February 18, 2009. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered Diagonal Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Diagonal Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Diagonal Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Diagonal Community School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of Diagonal Community School District's financial statements that is more than inconsequential will not be prevented or detected by Diagonal Community School District's internal control. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by Diagonal Community School District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item II-A-08 is a material weakness.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Diagonal Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2008 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Diagonal Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the District's responses, we did not audit Diagonal Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Diagonal Community School District and other parties to whom Diagonal Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Diagonal Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

  
NOLTE, CORNMAN & JOHNSON, P.C.

February 18, 2009

**NOLTE, CORNMAN & JOHNSON P.C.**  
**Certified Public Accountants**  
(a professional corporation)  
117 West 3rd Street North, Newton, Iowa 50208-3050  
Telephone (641) 792-1910

Independent Auditor's Report on Compliance with Requirements Applicable  
to Each Major Program and Internal Control over Compliance  
in Accordance with OMB Circular A-133

To the Board of Education of  
Diagonal Community School District

Compliance

We have audited the compliance of Diagonal Community School District with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2008. Diagonal Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of Diagonal Community School District's management. Our responsibility is to express an opinion on Diagonal Community School District's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Diagonal Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Diagonal Community School District's compliance with those requirements.

In our opinion, Diagonal Community School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

The management of Diagonal Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered Diagonal Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Diagonal Community School District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the District's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a material weakness.

A control deficiency in the District's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a federal program such that there is more than a remote likelihood noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-A-08 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the District's internal control. We consider the significant deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-A-08 to be a material weakness.

Diagonal Community School District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we expressed our conclusions on the District's responses, we did not audit Diagonal Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Diagonal Community School District and other parties to whom Diagonal Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

  
NOLTE, CORNMAN & JOHNSON, P.C.

February 18, 2009

DIAGONAL COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2008

Part I: Summary of the Independent Auditor's Results

- (a) Unqualified opinions were issued on the financial statements.
- (b) Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) A significant deficiency in internal control over major programs was disclosed by the audit of the financial statements, which was considered to be a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major program was as follows:
  - Individual
    - CFDA Number 84.215 - Fund for the Improvement of Education
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Diagonal Community School District did not qualify as a low-risk auditee.



DIAGONAL COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2008

Part II: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

SIGNIFICANT DEFICIENCIES:

II-A-08 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will investigate available alternatives and implement as soon as possible.

Conclusion - Response accepted.

II-B-08 Nutrition Procedures - We noted during the audit that within the School Nutrition Fund, the commodity food listing was not priced out correctly at the end of the year.

Recommendation - The District should review their procedures to ensure that the commodity food is priced out correctly.

Response - We will price out the commodity food correctly in the future.

Conclusion - Response accepted.

DIAGONAL COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2008

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

SIGNIFICANT DEFICIENCIES:

CFDA Number 84.215 - Fund for the Improvement of Education  
Federal Award Year: 2008  
U.S. Department of Education

III-A-08 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will investigate available alternatives and implement as soon as possible.

Conclusion - Response accepted.

DIAGONAL COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2008

Part IV: Other Findings Related to Statutory Reporting

IV-A-08 Certified Budget - District expenditures for the year ended June 30, 2008 exceeded the amount budgeted in the other expenditures function.

Recommendation - The budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before expenditures were allowed to exceed the budget.

Response - We will work harder in the future to not exceed the spending of the certified budget.

Conclusion - Response accepted.

IV-B-08 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.

IV-C-08 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

IV-D-08 Business Transactions - Business transactions between the District and District officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Monte Starlin, Board Member Owns Starlin Construction	Drain Repairs	\$1,550

In accordance with the Chapter 279.7A of the code of Iowa, the above transaction with the board member does not appear to represent a conflict of interest.

IV-E-08 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

IV-F-08 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.

IV-G-08 Certified Enrollment - We noted a variance in the basic enrollment data certified to the Department of Education for October 2007. The number of resident students reported on Line 1 was understated by three students.

Recommendation - The District should contact the Iowa Department of Education and the Department of Management to resolve this matter.

Response - The District has contacted the Department of Management and all enrollment issues have been resolved.

Conclusion - Response accepted.

IV-H-08 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

IV-I-08 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely, and we noted no significant deficiencies in the amounts reported.